CHIEF ALBERT LUTHULI LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2013

General Information

Legal form of entity	Local municipality
Municipal demarcation code	MP301
Executive Mayor	Shiba BP
Speaker	Nkosi SM
Chief Whip	Nkosi DP
Mayoral Committee	Mngomezulu MW Mnisi NM Thabethe QG
Councillors	Cindi NR Dludlu ZM Lubede EJ Maduna ME Makene J Makhubela NV Malaza STQ Masuku BM Mathunjwa KC (resigned 31 March 2013) Mbhele JS McGinn HJ Mdhluli NI Mdluli SL (deceased 31 May 2013) Mhlanga PP Mkhabela EB Mnisi N Motha TW Mthombeni SF Ngubeni A Nkabinde NJ Nkosi AD Nkosi FE Nkosi GJ Nkosi JS Nkosi MH Nkosi MJ Nkosi NM Nkosi SJ Nkosi SZ Nkosi VL Ntuli FJ Phakathi FDM Shabangu VS Sikhakhane JD Simelani JD Soko JP

General Information

	Steenkamp ML Thomo NG Vilakazi J Vilakazi RG Vilakazi VV Zwane TE Zulu TW
Grading of local authority	Grade 3 Medium capacity
Accounting Officer	Mpila VN
Chief Finance Officer (CFO)	Mphumuzi Nhlabathi
Registered office	28 Kerk Street Carolina Mpumalanga 1185
Business address	28 Kerk Street Carolina Mpumalanga 1185
Postal address	Private Bag X719 Carolina 1185
Bankers	Standard Bank of South Africa Limited
Auditors	Auditor General
Attorneys	Guzana Attorneys Macbeth Ncongwane Attorneys Ramathe MJ Attorneys TMN Kgomo Attorneys

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The reports and statements set out below comprise the annual financial statements presented to the council:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously Common Management Information Protocol)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act nr 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The annual financial statements set out on pages 5 to 73, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2013 and were signed on its behalf by:

Accounting Officer
Mpila VN

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2013.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year the following meetings were held

Name of member	Number of meetings attended
Tebogo Gafane (Chairperson)	04
Xholani Khumalo	03
Sanele Gumbi	02
Mmabatho Sepuru	02

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA and Treasury Regulation 3.1.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective.

The quality of in year management and quarterly reports submitted in terms of the MFMA enabled the committee to inform itself on the state of the munisipality operational and financial controls. Accordingly we can report that the system of internal control over financial reporting for the period under review was effective and efficient.

Evaluation of annual financial statements

The audit committee was able to review and discuss the final annual financial statements with management prior their submission. The reviewed covered the following areas:

- determining the extent to which the Auditor-General of South Africa's recommendation were implemented
- reviewed changes in accounting policies, practices and application of new or additional GRAP standards and their impact on the financial statements.
- reviewed disclosure notes to the financials and performance information to support the reported expenditure;
- reviewed the municipality compliance with legal and regulatory provisions relating to preparation of financials;
- reviewed significant adjustments resulting from the previous audit.

The audit committee is of the view that the financial statements presented by the Accounting Officer are free from any material misstatements, and are of the opinion that the draft annual financial statements should be accepted and read together with the supporting notes and schedules.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

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Chairperson of the Audit Committee

Date: ______________________

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	Restated 2012
Assets			
Current Assets			
Cash and cash equivalents	3	1 195 124	2 330 971
Receivables from exchange transactions	4	24 100 523	18 784 557
Receivables from non-exchange transactions	5	40 662 138	30 209 268
Inventories	6	1 715 111	130 684
Investments	7	1 198 777	10 224 771
Operating lease asset	8	24 244	34 027
VAT receivable	9	1 567 137	-
		70 463 054	**61 714 278**
Non-Current Assets			
Investment property	10	18 345 000	18 345 000
Property, plant and equipment	11	728 227 805	722 457 109
Investments	7	252 348	4 053 492
		746 825 153	**744 855 601**
Non-current assets held for sale	14	2 738 000	2 797 300
Total Assets		**820 026 207**	**809 367 179**
Liabilities			
Current Liabilities			
Payables from exchange transactions	19	93 905 234	50 715 394
VAT payable	20	-	1 494 165
Finance lease obligation	16	267 600	256 848
Unspent conditional grants and receipts	17	1 385 824	4 118 566
Provisions	18	30 000	-
		95 588 658	**56 584 973**
Non-Current Liabilities			
Finance lease obligation	16	384 084	625 428
Employee benefit obligation	13	10 988 000	10 606 168
Provisions	18	4 992 503	4 709 909
Long service award accrual	12	3 811 000	2 972 000
		20 175 587	**18 913 505**
Total Liabilities		**115 764 245**	**75 498 478**
Net Assets		**704 261 962**	**733 868 701**
Reserves			
Revaluation reserve	15	24 046 763	24 046 763
Accumulated surplus		680 215 199	709 821 938
Total net assets		**704 261 962**	**733 868 701**

Statement of Financial Performance

Figures in Rand	Note(s)	2013	Restated 2012
Revenue			
Donations	38	10 732 760	9 712 587
Fines	37	194 214	856 582
Interest received - investment	31	1 758 010	2 641 570
Interest received - consumers	30	16 058 562	16 042 871
Other Income	39	1 257 078	1 974 754
Government grants & subsidies	24	268 343 473	250 013 616
Licences and permits	36	1 863 030	953 264
Dividends received - investments	31	6 884	-
Property rates	22	31 158 134	21 997 956
Rental of facilities and equipment	35	427 476	439 865
Service charges	23	29 442 567	25 550 159
Total revenue		**361 242 188**	**330 183 224**
Expenditure			
Employee related cost	26	(95 987 050)	(82 843 701)
Remuneration of councillors	27	(12 602 909)	(11 401 609)
Depreciation	11	(94 508 594)	(93 489 123)
Rehabilitation cost		(647 042)	(4 473 089)
Finance costs	33	(878 432)	(256 301)
Allowance for debt impairment	28	(34 216 243)	(30 026 486)
Repairs and maintenance	29	(24 099 498)	(23 822 819)
Bulk purchases	41	(31 362 755)	(34 239 162)
Contracted services	40	(27 263 801)	(30 273 827)
General expenses	25	(69 478 683)	(71 818 311)
Total expenditure		**(391 045 007)**	**(382 644 428)**
Operating deficit		**(29 802 819)**	**(52 461 204)**
Fair value adjustment	32	196 080	1 249 852
Deficit for the year		**(29 606 739)**	**(51 211 352)**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	6 234 263	767 589 600	773 823 863
Adjustments			
Prior year adjustments see note 46	-	(6 556 310)	(6 556 310)
Balance at 01 July 2011 as restated	**6 234 263**	**761 033 290**	**767 267 553**
Changes in net assets			
Revaluation surplus during the year	17 812 500	-	17 812 500
Net surpluses (deficits) recognised directly in net assets	17 812 500	-	17 812 500
Deficit for the year as previously reported	-	(51 594 021)	(51 594 021)
Total recognised income and expenses for the year	17 812 500	(51 594 021)	(33 781 521)
Prior year adjustments - see note 46	-	382 669	382 669
Total changes	17 812 500	(51 211 352)	(33 398 852)
Balance at 01 July 2012	**24 046 763**	**709 821 938**	**733 868 701**
Changes in net assets			
Surplus for the year	-	(29 606 739)	(29 606 739)
Total changes	-	(29 606 739)	(29 606 739)
Balance at 30 June 2013	**24 046 763**	**680 215 199**	**704 261 962**
Note(s)	15		

Cash Flow Statement

Figures in Rand	Note(s)	2013	Restated 2012
Cash flows from operating activities			
Receipts			
Sale of goods and services		31 158 134	21 997 956
Grants		276 343 491	239 431 711
Interest income from investing activities		1 758 010	2 641 570
Interest income from trading activities		16 058 562	16 042 871
Other receipts		3 807 982	4 232 747
		329 126 179	284 346 855
Payments			
Employee costs		(108 208 127)	(94 219 749)
Suppliers		(110 579 758)	(129 354 883)
Finance costs		(878 424)	(256 301)
Services		(20 701 415)	(13 310 602)
Taxes		(3 061 302)	18 575 413
		(243 429 026)	(218 566 122)
Net cash flows from operating activities	42	**85 697 153**	**65 780 733**
Cash flows from investing activities			
Purchase of property, plant and equipment		(100 279 290)	(88 359 338)
Proceeds from sale of property, plant and equipment		-	176 480
Proceeds from the sale of investments		12 827 138	18 634 235
Net cash flows from investing activities		**(87 452 160)**	**(76 420 932)**
Cash flows from financing activities			
Other liability		839 000	2 588 626
Finance lease payments		(219 840)	843 229
Net cash flows from financing activities		**619 160**	**3 431 855**
Net increase / (decrease) in cash and cash equivalents		**(1 135 847)**	**(7 208 344)**
Cash and cash equivalents at the beginning of the year		2 330 971	9 539 317
Cash and cash equivalents at the end of the year	3	**1 195 124**	**2 330 973**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual
Statement of Financial Performance					
Revenue					
Revenue from exchange transactions					
Service charges	32 025 774	(3 844 241)	**28 181 533**	29 442 567	**1 261 034**
Rental of facilities and equipment	66 270	(249)	**66 021**	427 476	**361 455**
Interest received (consumers)	8 560 000	-	**8 560 000**	16 058 562	**7 498 562**
Licences and permits	1 003 829	-	**1 003 829**	1 863 030	**859 201**
Administration and management fees received	768 955	(58 095)	**710 860**	1 257 078	**546 218**
Interest received - investment	1 750 000	-	**1 750 000**	1 758 010	**8 010**
Total revenue from exchange transactions	**44 174 828**	**(3 902 585)**	**40 272 243**	**50 806 723**	**10 534 480**
Revenue from non-exchange transactions					
Taxation revenue					
Property rates	31 179 590	-	**31 179 590**	31 158 134	**(21 456)**
Transfer revenue					
Government grants & subsidies	171 063 800	(8 195 592)	**162 868 208**	268 343 473	**105 475 265**
Fines	326 101	-	**326 101**	194 214	**(131 887)**
Total revenue from non-exchange transactions	**202 569 491**	**(8 195 592)**	**194 373 899**	**299 695 821**	**105 321 922**
Total revenue	**246 744 319**	**(12 098 177)**	**234 646 142**	**350 502 544**	**115 856 402**
Expenditure					
Personnel	(83 296 000)	7 425 981	**(75 870 019)**	(95 987 050)	**(20 117 031)**
Remuneration of councillors	(13 229 765)	-	**(13 229 765)**	(12 602 909)	**626 856**
Depreciation and amortisation	(2 000 000)	-	**(2 000 000)**	(94 508 594)	**(92 508 594)**
Debt impairment	(15 362 778)	(1 054 082)	**(16 416 860)**	(34 216 243)	**(17 799 383)**
Bulk purchases	(17 157 999)	(9 632 160)	**(26 790 159)**	(31 362 755)	**(4 572 596)**
Contracted Services	(18 306 816)	(3 810 011)	**(22 116 827)**	(27 263 801)	**(5 146 974)**
General expenses	(97 390 712)	19 168 522	**(78 222 190)**	(95 103 655)	**(16 881 465)**
Total expenditure	**(246 744 070)**	**12 098 250**	**(234 645 820)**	**(391 045 007)**	**(156 399 187)**
Operating deficit	**-**	**249 306 221**	**249 306 221**	**(29 802 819)**	**(279 109 040)**
Capital expenditure	132 915 502	(31 196 302)	**101 719 200**	103 024 006	**1 304 806**
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**132 915 502**	**(31 196 302)**	**101 719 200**	**103 024 006**	**1 304 806**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	400 000	-	**400 000**	1 715 111	**1 315 111**	
Investments	23 213 635	-	**23 213 635**	1 451 125	**(21 762 510)**	
Consumer Deposits	100 722 255	(1 859 948)	**98 862 307**	64 762 661	**(34 099 646)**	
VAT receivable	-	-	**-**	1 567 137	**1 567 137**	
Cash and cash equivalents	12 378 900	21 428 000	**33 806 900**	1 195 124	**(32 611 776)**	
	136 714 790	**19 568 052**	**156 282 842**	**70 691 158**	**(85 591 684)**	
Non-Current Assets						
Property, plant and equipment	742 666 303	-	**742 666 303**	728 227 805	**(14 438 498)**	
Total Assets	**879 381 093**	**19 568 052**	**898 949 145**	**798 918 963**	**(100 030 182)**	
Liabilities						
Current Liabilities						
Borrowings	6 403	-	**6 403**	-	**(6 403)**	
Payables from exchange transactions	31 008 497	-	**31 008 497**	93 905 237	**62 896 740**	
	31 014 900	**-**	**31 014 900**	**93 905 237**	**62 890 337**	
Non-Current Liabilities						
Borrowings	101 000	-	**101 000**	-	**(101 000)**	
Provisions	1 778 295	-	**1 778 295**	5 022 503	**3 244 208**	
	1 879 295	**-**	**1 879 295**	**5 022 503**	**3 143 208**	
Net Assets	**846 486 898**	**19 568 052**	**866 054 950**	**699 991 223**	**(166 063 727)**	
Reserves						
Revaluation reserve	52 777 697	-	**52 777 697**	24 046 763	**(28 730 934)**	
Accumulated surplus	793 709 201	19 568 052	**813 277 253**	680 215 199	**(133 062 054)**	
Total Net Assets	**846 486 898**	**19 568 052**	**866 054 950**	**699 991 223**	**(166 063 727)**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note Changes in accounting policy.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts or recoverable service amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, supply demand, together with economic factors such as inflation and interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 Provisions.

Useful lives of property, plant and equipment and intangible assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows except where stated otherwise.

Allowance for impairment

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or
- administrative purposes; or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, the cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

1.2 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Accounting Policies

1.3 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except land which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in net assets related to a specific item of property, plant and equipment is transferred directly to accumulated surplus when the asset is derecognised.

The revaluation surplus in net assets related to a specific item of property, plant and equipment is transferred directly to accumulated surplus as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Buildings	10 - 50 years
Community	10 - 50 years
Infrastructure	15 - 80 years
Land	Indefinite
Landfill site	20 years
Other property, plant and equipment	2 - 35 years

The residual value, the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. Such difference is recognised in surplus or deficit when the item of property, plant and equipment is derecognised.

Accounting Policies

1.3 Property, plant and equipment (continued)

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.5 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period in which they are received.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for a nominal cost, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.7 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Accounting Policies

1.7 Non-current assets held for sale and disposal groups (continued)

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs.

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.9 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

Accounting Policies

1.10 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.10 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money are consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.11 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an finance cost.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating expenditure.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.11 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when the municipality:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:
- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probably that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.8 and 1.9.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.12 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another party without directly giving approximately equal value in exchange, or gives value to another party without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the municipality.

1.13 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the municipality.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Accounting Policies

1.14 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.16 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998), or is in contravention of the municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Budget information

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012/07/01 to 2013/06/30.

The statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.20 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management is those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

Accounting Policies

1.21 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when the municipality receives value from another party without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, the municipality shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where the municipality prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the ‘Statement of Comparison of Budget and Actual Amounts’. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 21: Impairment of Non-cash-generating Assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:
- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 26: Impairment of Cash-generating Assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one entity and a financial liability or residual interest in another entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, the municipality considers the substance of the contract and not just the legal form.

Financial assets and financial liabilities are initially recognised at fair value. Where the municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Concessionary loans are loans either received by or granted to another entity on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. The municipality measures a financial instrument at fair value if it is:

- a derivative;

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, the municipality can however designate such an instrument to be measured at fair value.

The municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once the municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

The municipality derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, the municipality has transferred control of the asset to another entity.

The municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where the municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

The municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for the municipality’s statement of financial position and statement of financial performance, as well as the nature and extent of the risks that the municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is set out in note Changes in accounting policy.

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

GRAP 1 (as revised 2012): Presentation of Financial Statements

Minor amendments were made to the statement of financial performance as well as the statement of changes in net assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Amendments were made to changes in accounting policies. A change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that a Standard of GRAP would otherwise require or permit to be measured at fair value are no longer considered to be a change in an accounting policy in terms of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 7 (as revised 2012): Investments in Associates

Amendments were made to definitions. A requirement to include transaction costs on initial recognition of an investment in an associate under the equity method, has been included in the Standard of GRAP Investments in Associates

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Amendments were made to the scope and definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 12 (as revised 2012): Inventories

Amendments were made to measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 13 (as revised 2012): Leases

Amendments were made to disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The impact of the amendment is not material.

GRAP 16 (as revised 2012): Investment Property

Amendments were made to definitions, measurement at recognition, disposals and disclosure. Changes were made to the Standard of GRAP on Investment Property (as revised in 2010) to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the assessment of significant use of an investment property has been clarified.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 17 (as revised 2012): Property, Plant and Equipment

Amendments were made to definitions, measurement at recognition, disposals and disclosure. Changes were made to the Standard of GRAP on Property, Plant and Equipment (as revised in 2010) to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the requirement to disclose property, plant and equipment that were temporarily idle, has been clarified.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)

This Standard of GRAP replaces the previous Standard of GRAP on Agriculture (GRAP 101) due to the International Public Sector Accounting Standards Board (IPSASB) that has issued an IPSAS on Agriculture (IPSAS 27).

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has early adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

This Standard of GRAP replaces the previous Standard of GRAP on Intangible Assets (GRAP 102) due to the IPSASB that has issued an IPSAS on Intangible Assets (IPSAS 31).

Changes made comprise three areas that can be summarised as follows:

- consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31;
- the deletion of guidance and examples from interpretations issued by the International Accounting Standards Board (IASB) previously included in GRAP 102; and
- changes to ensure consistency between the Standards of GRAP, or to clarify existing principles.

All amendments to be applied retrospectively.

The effective date of the standard is for years beginning on or after 01 April 2013.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality has early adopted the standard for the first time in the 2013 annual financial statements.

The impact of this amendment is currently being assessed.

IGRAP 16: Intangible Assets - Website Costs

The interpretation deals with the treatment of the municipality's own website. It concludes that the municipality's own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets.

A website arising from development will be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in the Standard of GRAP on Intangible Assets for recognition and initial measurement, the municipality can satisfy the requirements in paragraph .54 in the Standard of GRAP on Intangible Assets, which in particular requires the municipality to be able to demonstrate how its website will generate probable future economic benefits or service potential.

If the municipality is not able to demonstrate how a website developed solely or primarily for providing information about its own products and services will generate probable future economic benefits or service potential, all expenditure on developing such a website will be recognised as an expense when incurred.

A website that is recognised as an intangible asset under this interpretation will be measured after initial recognition by applying the requirements in the Standard of GRAP on Intangible Assets.

The effective date of the interpretation is for years beginning on or after 01 April 2013.

The municipality has early adopted the interpretation for the first time in the 2013 annual financial statements.

The impact of the interpretation is not material.

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

GRAP 25: Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The standard requires the municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when the municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

The standard states the recognition, measurement and disclosure requirements of:

- short-term employee benefits;
  - all short-term employee benefits;
  - short-term compensated absences;
  - bonus, incentive and performance related payments;
- post-employment benefits: Defined contribution plans;
- other long-term employee benefits; and
- termination benefits.

The major difference between this this standard (GRAP 25) and IAS 19 is with regards to the treatment of actuarial gains and losses and past service costs. This standard requires the municipality to recognise all actuarial gains and losses and past service costs immediately in the statement of financial performance once occurred.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 105: Transfers of functions between entities under common control

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and/or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a transfer of functions between entities under common control.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and/or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.

The difference between amount of consideration paid or received, if any, and the fair value of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

Specific disclosures are required when there is a transfer of functions between entities not under common control.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomed effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 20: Related Parties

The objective of this standard is to ensure that the reporting entity’s annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The municipality (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard states that a related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence.

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management.

Only transactions with related parties where the transactions are not concluded within normal normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

Figures in Rand	2013	2012

3. Cash and cash equivalents

Cash and cash equivalents consist of:

	2013	2012
Cash on hand	1 117	1 117
Bank balances	1 194 007	2 329 854
	1 195 124	**2 330 971**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	**30 June 2012**	**30 June 2011**	**30 June 2013**	**30 June 2012**	**30 June 2011**
Standard Bank - Current account - 033255954	1 215 545	2 568 446	12 992 970	1 195 124	2 330 971	9 537 916

4. Receivables from exchange transactions

	2013	2012
Gross balances		
Electricity	14 943 823	13 099 608
Other	15 446 456	14 644 421
Refuse	34 070 959	29 406 937
Sewerage	35 077 096	30 449 386
Water	7 767 121	5 226 252
	107 305 455	**92 826 604**
Less: Allowance for impairment		
Electricity	(11 781 693)	(10 453 905)
Other	(11 643 834)	(11 370 874)
Refuse	(27 067 440)	(23 458 787)
Sewerage	(27 729 936)	(24 308 467)
Water	(4 982 028)	(4 170 715)
	(83 204 931)	**(73 762 748)**
Net balance		
Electricity	3 162 130	2 645 703
Other	3 802 621	2 994 248
Refuse	7 003 518	5 948 150
Sewerage	7 347 160	6 140 919
Water	2 785 094	1 055 537
	24 100 523	**18 784 557**
Electricity		
Current (0 -30 days)	743 256	565 501
31 - 60 days	255 394	449 311
61 - 90 days	228 858	648 438
> 90 days	13 716 315	11 436 358
Less: Allowance for impairment	(11 781 693)	(10 453 905)
	3 162 130	**2 645 703**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

4. Receivables from exchange transactions (continued)

Water		
Current (0 -30 days)	1 695 536	124 992
31 - 60 days	162 976	58 219
61 - 90 days	169 479	175 196
> 90 days	5 739 131	4 867 845
Less: Allowance for impairment	(4 982 028)	(4 170 715)
	2 785 094	**1 055 537**

Sewerage		
Current (0 -30 days)	716 177	789 067
31 - 60 days	488 359	459 499
61 - 90 days	476 012	448 824
> 90 days	33 396 547	28 763 131
Less: Allowance for impairment	(27 086 761)	(24 308 467)
	7 990 334	**6 152 054**

Refuse		
Current (0 -30 days)	508 189	764 865
31 - 60 days	460 506	447 460
61 - 90 days	451 287	439 433
> 90 days	32 650 976	28 593 724
Less: Allowance for impairment	(27 067 440)	(24 308 467)
	7 003 518	**5 937 015**

Other		
Current (0 -30 days)	1 012 854	712 952
31 - 60 days	74 137	80 630
61 - 90 days	72 975	65 502
> 90 days	14 286 489	13 785 337
Less: Allowance for impairment	(11 643 834)	(11 370 874)
	3 802 621	**3 273 547**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

4. Receivables from exchange transactions (continued)

Summary of receivables (exchange and non exchange) by customer classification

	2013	2012
Consumers		
Current (0 -30 days)	5 652 242	5 148 371
31 - 60 days	2 361 562	3 078 987
61 - 90 days	2 331 195	3 378 934
> 90 days	181 937 155	211 635 085
Less: Allowance for impairment	(154 000 058)	(176 578 961)
	38 282 096	**46 662 416**
Industrial/ commercial		
Current (0 -30 days)	4 676 226	1 132 994
31 - 60 days	1 863 248	687 751
61 - 90 days	1 843 326	833 627
91 - 120 days	90 975 717	18 462 386
Less: Allowance for impairment	(78 494 356)	(18 542 990)
	20 864 161	**2 573 768**
National and provincial government		
Current (0 -30 days)	498 030	350 695
31 - 60 days	239 929	193 112
61 - 90 days	233 788	163 366
91 - 120 days	4 644 655	3 384 071
	5 616 402	**4 091 244**
Total		
Current (0 -30 days)	10 826 499	6 583 654
31 - 60 days	4 464 741	3 959 850
61 - 90 days	4 408 309	4 375 928
> 90 days	277 557 527	232 631 863
Less: Allowance for impairment	(232 494 414)	(198 278 172)
	64 762 662	49 273 123
	-	-

	2013	2012
Reconciliation of allowance for impairment		
Balance at beginning of the year	(198 278 172)	(168 251 692)
Contributions to allowance	(34 216 243)	(30 026 486)
	(232 494 414)	**(198 278 172)**

Consumer receivables pledged as security

None of the consumer receivables were pledged as security.

None of the financial assets that are fully performing have been renegotiated in the prior year.

Credit quality of receivables from exchange and non exchange transactions

The credit quality of receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The municipality does not hold any collateral as security.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

5. Receivables from non-exchange transactions

Property rates	189 951 620	154 716 410
Staff debtors	8 282	8 282
Less: Allowance for doubtful debt	(149 297 764)	(124 515 424)
	40 662 138	**30 209 268**

Gross balances		
Property rates	189 951 620	154 716 409
Staff debtors	8 282	8 282
	189 959 902	**154 724 691**

Less: Allowance for impairment		
Property rates	(149 289 482)	(124 515 424)
Staff debtors	(8 282)	-
	(149 297 764)	**(124 515 424)**

Net balance		
Property rates	40 662 138	30 200 986
Staff debtors	-	8 282
	40 662 138	**30 209 268**

Property rates		
Current (0-30 days)	6 188 323	4 163 032
31 - 60 days	3 023 367	2 474 533
61 - 90 days	3 009 699	2 529 253
> 90 days	177 738 513	145 549 591
Less: Allowance for impairment	(149 297 764)	(124 515 423)
	40 662 138	**30 200 986**

Staff debtors		
> 90 days	8 282	8 282
Less: Allowance for impairment	(8 282)	-
	-	**8 282**

Total		
Current (0-30 days)	6 188 323	4 163 032
31 - 60 days	3 023 367	2 474 533
61 - 90 days	3 009 699	2 529 252
> 90 days	177 738 514	145 549 593
Less: Allowance for impairment	(147 399 287)	(124 515 424)
	42 560 616	**30 200 986**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

6. Inventories

Consumables	1 620 846	65 083
Water	94 265	65 601
	1 715 111	**130 684**

At year-end no assets have been pledged as security.

7. Investments

Unlisted investments designated at amortised cost		
Stanlib money market account - Account number IP0006247 End date: 10/09/2012	-	1 525 225
Listed investments designated at fair value		
Listed shares	609 132	473 402
Unlisted investments designated at fair value		
RMB Momentum - Account number RU 500434741 End date indefinite	179 679	2 083 436
Sanlam: Guarantee Capital Fund - Policy number 9921774X7 End date: cover at death	72 669	1 970 056
Stanlib classic investment plan - Account number IP0006247 End date: Indefinate	448 349	8 189 070
Standard bank money market call account - Account number 038478668002 End date indefinite	19 026	37 074
Standard bank call account - Account number 308654552 End date: Indefinite	122 270	-
	589 645	8 226 144
	841 993	**12 279 636**

Non-current assets		
Designated at amortised cost	252 348	4 053 492
Current assets		
Designated at fair value	-	1 525 225
Listed investment designated at fair value	609 132	473 402
Designated at amortised cost	589 645	8 226 144
	1 198 777	**10 224 771**

Fair value information

The following classes of financial assets are carried at fair value:
- Listed shares

The municipality owns 13,242 shares in Sanlam Limited which was trading at 46,00c (2012: 35,75c) per share at each reporting period.

Renegotiated terms

None of the financial assets that are fully performing have been renegotiated in the last year.

The municipality has not reclassified any financial asset from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

Credit qualtiy of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

8. Operating lease asset

	2013	2012
Operating lease asset		
Straight lining of operating lease revenue	24 244	34 027

Operating lease asset represent rentals receivable by the municipality for premises/properties rented out. The lease was negotiated for periods ranging from 36 months to 119 months. The rentals escalate on average between 5% and 10% per annum.

9. VAT receivable

	2013	2012
VAT	1 567 137	-

VAT is payable on the cash basis. VAT is paid over to the SARS only once payment is received from receivables.

10. Investment property

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	18 345 000	-	18 345 000	18 345 000	-	18 345 000

Reconciliation of investment property - 2013

	Opening balance	**Total**
Investment property	18 345 000	18 345 000

Reconciliation of investment property - 2012

	Opening balance	**Transfers**	**Fair value adjustments**	**Total**
Investment property	12 023 600	5 180 000	1 141 400	18 345 000

10. Investment property (continued)

Pledged as security

At year end no assets have been pledged as security.

Details of property

Investment properties mainly consists of industrial and residensial units.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2012. The first supplementary was implemented on 1 May 2013. Interim valuations are processed on a quaterly basis to take into account changes in individual property values due to alterations. The valuation were performed by an independent valuer, Sechele Property Developers and Valuers are not connected to the municipality.

The valuation was based on open market value for existing use.

Amounts recognised in surplus and deficit for the year.

	2013	2012
Rental revenue from investment property	424 276	439 865

11. Property, plant and equipment

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	57 589 700	-	57 589 700	57 589 700	-	57 589 700
Buildings	17 149 909	(2 223 834)	14 926 075	17 149 909	(1 608 531)	15 541 378
Infrastructure	956 370 764	(452 971 187)	503 399 577	918 683 718	(362 384 478)	556 299 240
Community	23 472 490	(3 101 465)	20 371 025	23 472 490	(2 481 172)	20 991 318
Infrastructure work in progress	103 024 006	-	103 024 006	46 441 186	-	46 441 186
Landfill site	14 549 560	(1 224 446)	13 325 114	9 923 098	(601 628)	9 321 470
Other property, plant and equipment	21 039 701	(5 447 393)	15 592 308	20 109 615	(3 836 798)	16 272 817
Total	**1 193 196 130**	**(464 968 325)**	**728 227 805**	**1 093 369 716**	**(370 912 607)**	**722 457 109**

Reconciliation of property, plant and equipment - 2013

	Opening balance	**Additions**	**Transfers**	**Depreciation & Impairment**	**Carrying Value**
Land	57 589 700	-	-	-	57 589 700
Buildings	15 541 378	-	-	(615 303)	14 926 075
Infrastructure	556 299 240	13 138 408	25 001 512	(91 039 583)	503 399 577
Community	20 991 318	-	-	(620 293)	20 371 025
Infrastructure work in progress	46 441 186	86 210 794	(29 627 974)	-	103 024 006
Landfill site	9 321 470	-	4 626 462	(622 818)	13 325 114
Other property, plant and equipment	16 272 817	930 088	-	(1 610 597)	15 592 308
	722 457 109	**100 279 290**	**-**	**(94 508 594)**	**728 227 805**

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation & Impairment	Carrying Value
Land	47 930 980	-	(176 480)	(5 180 000)	15 015 200	-	57 589 700
Buildings	14 266 346	1 857 970	-	-	-	(582 938)	15 541 378
Infrastructure	591 396 191	11 693 244	-	43 843 333	-	(90 633 528)	556 299 240
Community	21 611 611	-	-	-	-	(620 293)	20 991 318
Infrastructure work in progress	26 571 463	63 713 056	-	(43 843 333)	-	-	46 441 186
Landfill site	2 004 006	7 813 619	-	-	-	(496 155)	9 321 470
Other property, plant and equipment	14 147 577	3 281 449	-	-	-	(1 156 209)	16 272 817
	717 928 174	**88 359 338**	**(176 480)**	**(5 180 000)**	**15 015 200**	**(93 489 123)**	**722 457 109**

Pledged as security

At year-end no assets have been pledged as security.

Revaluations

The effective date of the revaluations of land was 30 June 2012. Revaluations were performed by an independent valuer, Valuers Arica (Pty) Ltd. Valuers Africa (Pty) Ltd are not connected to the municipality.

These assumptions were based on current market conditions.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

12. Long service award liability

Long service award arrangements

As per government gazette an employee shall qualify for long service rewards in terms of leave days credits for the various periods of continuous service completed at the same employer as follows:
All new pensioners will receive a 60% subsidy subject to the maximum of R3,557.65 (R3,440 in 2012)

- After 10 years of service - 10 working days
- After 15 years of service - 20 working days
- After 20 years of service - 30 working days
- After 25 years of service - 30 working days
- After 30 years of service - 30 working days
- After 35 years of service - 30 working days
- After 40 years of service - 30 working days
- After 45 years of service - 30 working days

The leave mentioned may be wholly or partially converted on the date on which an employee qualified or at any stage thereafter.

Long service benefits are awarded in the form of a number of leave days awarded once the employee completes a certain number of years in service.

Valuation of assets
The long service leave award liability of the municipality is unfunded. No dedicated assets had been set aside to meet this liability.

	2013	2012
Valuation of assets		
Carrying value		
Present value	3 811 000	2 972 000
Changes in the present value		
Opening balance	2 972 000	2 223 000
Current service cost	372 000	290 000
Interest cost	245 000	197 000
Benefits paid	(122 908)	(121 000)
Actuarial loss/(gain)	344 908	383 000
	3 811 000	**2 972 000**
Net expense recognised in the statement of financial performance		
Current service cost	372 000	290 000
Interest cost	245 000	197 000
Actuarial loss/(gain)	344 908	383 000
	961 908	**870 000**
Key assumptions		
Discount rate	7,40 %	7,92 %
Consumer price inflation	5,66 %	5,74 %
Salary increase rate	6,66 %	6,74 %
Net effective discount rate	0,69 %	1,11 %
	-	**-**

The effect of 1% p.a. change in the normal salary inflation assumption is as follow:	**One percentage point increase**	**Current valuation percentage**	**One percentage point decrease**

Notes to the Annual Financial Statements

Figures in Rand		2013	2012

12. Long service award liability (continued)

Total accrued liability	4 162 000	3 811 000	3 502 000
Current service cost	564 000	503 000	450 000
Interest cost	320 000	292 000	267 000
	5 046 000	**4 606 000**	**4 219 000**

The cost of the long service awards is dependant on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future retirees.

The interest cost is based on the discount rate assumption for the current valuation which is based on one point on the curve.

The amounts for the current annual reporting period and previous reporting period:

Present value of obligation	3 811 000	2 972 000

13. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

Medical scheme arrangements
The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member’s death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Contribution rate structure
Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Subsidy arrangements
There are no current subsidy policy used. Therefore the guidelines as set by the South African Local Government Association (SALGA) in Resolution 8 (Post-retirement Medical Aid Subsidies) were applied for valuation purposes

The municipality has agreed to subsidise the medical aid contributions of retired members in the following way:
- All new pensioners will receive a 60% subsidy subject to the maximum of R3,557.65 for the 2013 (R3,440 in 2012)
- Continuation members that were retired prior to the introduction of the current policy will continue to receive a 70% subsidy.
- The maximum subsidy is expected to increase at 75% of inflation.

However, pensioners that are currently receiving a PRMA benefit do not match the SALGA policy in terms of the subsidy percentage. Therefore, it was decided that the current pensioners will be valued based on the actual subsidy that they are currently receiving, which is either a 70% or 100% subsidy of their total monthly medical aid contribution, based on the data provided. In addition, the subsidy payable is not limited to a maximum for pensioners.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(10 988 000)	(10 606 168)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	10 606 168	10 580 607
Service cost	51 841	48 944
Interest cost	558 745	607 465
Benefits paid	(644 108)	(630 848)
Actuarial Loss/(Gain)	415 354	-
	10 988 000	**10 606 168**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

13. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	51 841	48 944
Interest cost	558 745	607 465
Actuarial (gains) losses	415 354	-
	1 025 940	**656 409**

Key assumptions used

Assumptions used at the reporting date:

Real discount rate	7,89 %	1,00 %
Consumer price inflation	6,14 %	2,50 %
Expected increase in salaries	- %	3,50 %
Maximum subsidy increase rate	0,70 %	- %
Medical aid contribution inflation	7,14 %	- %

In the 2012 financial year the actuaries used the Zero Coupon bond yield curve in order to determine the discount rate at each duration. Currently one point on the curve for comparison purposes was used.

Discount Rate
IAS 19 defines the determination of the discount rate assumption to be used as the rate that can be determined by reference to market yields at the financial position date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at financial position date) on government bonds should be used. The currency and term of the corporate bonds or government bonds should be consistent with the currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations.

The discount rate was therefore set as the yield of the R186 South African government bond as the valuation date. In the event that the valuation is performed prior to the effective valuation date. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. The actual yield on the R186 bond was sourced from the RMB Global Markets website on the 28th of June 2013.

Medical Aid Inflation
The medical aid inflation rate was reference to the past relationship between CPI and medical aid contribution rate inflation. We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationhip between current conventional bond yields (R186) and current index-linked yields (R197).

South Africa has experienced high health care cost inflation in recent years. The annaulised compound rates of increase for the last ten years show that registered medical schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not think that these increases are sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1%.

A single assumption for the investment return assumption is not shown as the entire South African zero-coupon yield curve as at 30 June 2012 was used.

Average Retirement Age
The average retirement age for all active employees was assumed to be 64 years. This assumption implicity allows for ill-health and early retirements.

13. Employee benefit obligations (continued)

Other assumptions

The increase of 1% p.a. change in the normal salary inflation assuption is as follow:	**One percentage point increase**	**Current valuation percentage**	**One percentage point decrease**
Defined benefit obligation	12 161 000	3 811 000	9 971 000
Service cost	935 000	503 000	762 000
Interest cost	45 000	292 000	36 000
	13 141 000	**4 606 000**	**10 769 000**

The service cost in the above table represents the increase in the liability due to the additional years of service accrued by the active members. For the base cost, where the assumption is made that the "gap" ("real discount rate") was 1 %, it is projected that service cost of R51 841 will be incurred. It should be noted that pensioners are not included in this figure since they do not accrue any extra years of service.

The interest cost is based on the discount rate assumption for the current valuation which is based on one point on the curve.

The amounts for the current annual reporting period and previous two reporting periods:

	2013	**2012**	**2011**	**2010**
Present value of the obligation	10 988 000	10 606 168	10 580 607	10 453 850

14. Non-current assets held for sale

	2013	2012
Property, plant and equipment	2 738 000	2 797 300

The municipality decided to dispose of some stands. At year end these disposals were not completed.

The disposal are expected to be completed by 2014/06/30.

15. Revaluation reserve

The effective date of the revaluations were 30 June 2012. Revaluations were performed by an independant valuer, Valuers Africa (Pty) Ltd. Valuers Africa (Pty) Ltd are not connected to the municipality.

The assumptions were based on current market conditions.

A register containing the information required by section 63 of the Municipal finance management act is available for inspection at the registered office of the municipality.

	2013	2012
Opening balance	24 046 763	6 234 263
Change during the year	-	17 812 500
	24 046 763	**24 046 763**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

16. Finance lease obligation

Minimum lease payments due		
- within one year	571 316	633 116
- in second to fifth year inclusive	481 200	1 030 786
- later than five years	59 758	81 488
	1 112 274	1 745 390
less: future finance charges	(460 590)	(863 114)
Present value of minimum lease payments	**651 684**	**882 276**
Present value of minimum lease payments due		
- within one year	267 600	256 848
- in second to fifth year inclusive	335 044	589 110
- later than five years	49 040	36 318
	651 684	**882 276**
Non-current liabilities	384 084	625 428
Current liabilities	267 600	256 848
	651 684	**882 276**

The average lease term is 3 years and the average effective borrowing rate is 9%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms and other escalate. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Accelerated community infrastructure programme	-	2 808 477
Department of Arts and Culture	199 666	199 666
Development bank of south africa	-	173 157
Department of Energy	568 835	-
Department of Local Government	228 831	228 832
Department of Water Affairs	354 473	-
Department of Water Affairs and Forestry Affairs	34 019	-
Finance management grant	-	708 434
	1 385 824	**4 118 566**

Movement during the year

Balance at the beginning of the year	4 118 566	24 413 047
Additions during the year	106 500 731	79 600 537
Income recognition during the year	(109 233 473)	(99 895 018)
	1 385 824	**4 118 566**

See note 24 for reconciliation of grants from National / Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

18. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Provision for rehabilitation	4 709 909	282 594	4 992 503
Legal proceedings	-	30 000	30 000
	4 709 909	**312 594**	**5 022 503**

Reconciliation of provisions - 2012

	Opening Balance	Reversed during the year	Total
Provision for rehabilitation	4 709 909	-	4 709 909
Performance bonus	383 374	(383 374)	-
	5 093 283	**(383 374)**	**4 709 909**

	2013	2012
Non-current liabilities	4 992 503	4 709 909
Current liabilities	30 000	-
	5 022 503	**4 709 909**

Provision for rehabilitation:

The municipality engages in waste disposal operations from residential and business areas within the following area:
- Ekukwatini landfill

Elukwatini landfill site is required from the entity to execute an environmental management program to restore the landfill sites after its useful life.

The expected cash flows will be over the next 20 years entailing three components

- Pre closure costs
- Rehabilitation and closure costs
- Post-closure monitoring and maintenance costs (aftercare)

The Elukwatini waste disposal facility is permitted and its classification is G:C:B-

Legal proceedings provisions

Estate Late Finyathela Louis Nkuna:

A transformer was installed on the plaintiff's site. As a result of this the plaintiff could not build on this site and was promised another site by Albert Luthuli. The probability of the claim being successful is more than 50%. The potential liability is estimated at R30 000.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

19. Payables from exchange transactions

1 % social responsibility	2 331 098	1 053 100
Accrual - leave pay	7 031 896	5 871 420
Accrual - thirteenth cheque	2 127 233	1 392 516
Consumer deposits	570 295	592 667
Retentions	8 508 316	8 459 974
Closure cost liability	5 120 131	4 473 089
Suspense accounts	191 906	(352 099)
Trade payables	61 666 072	26 231 174
Income received in advance	5 922 868	2 588 712
Unallocated deposits	435 419	404 841
	93 905 234	**50 715 394**

Consumer deposits
Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid on consumer deposits held.

Closure cost liability
Badplaas, Carolina and Mpuluzi landfill sites are operating without a license and by law are obligated to be closed and restored to its original state within the following year.

Badplaas	2 312 013	1 137 907
Carolina	1 140 621	1 804 528
Mpuluzi	1 667 497	1 530 654
	5 120 131	**4 473 089**

20. VAT payable

VAT refunds receivable	-	1 494 165

21. Revenue

Donations	10 732 760	9 712 587
Fines	194 214	856 582
Government grants & subsidies	268 343 473	250 013 616
Interest received	16 058 562	16 042 871
Interest received - investment	1 758 010	2 641 570
Administration and management fees received	1 257 078	1 974 754
Licences and permits	1 863 030	953 264
Dividends received	6 884	-
Property rates	31 158 134	21 997 956
Rental of facilities and equipment	427 476	439 865
Service charges	29 442 567	25 550 159
	361 242 188	**330 183 224**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

21. Revenue (continued)

The amount included in revenue arising from exchange of goods or services are as follows:

Interest received - investment	1 758 010	2 641 570
Interest received	16 058 562	16 042 871
Licences and permits	1 863 030	953 264
Administration and management fees received	1 257 078	1 974 754
Rental of facilities and equipment	427 476	439 865
Service charges	29 442 567	25 550 159
Dividends received	6 884	-
	50 813 607	**47 602 483**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	31 158 134	21 997 956
Transfer revenue		
Government grant and subsidies	268 343 473	250 013 616
Donations	10 732 760	9 712 587
Fines	194 214	856 582
	310 428 581	**282 580 741**

22. Property rates

Rates received

Residential	33 238 745	26 216 527
Commercial	296	1 192
Less: Income forgone	(2 080 907)	(4 219 763)
	31 158 134	**21 997 956**

Valuations

Residential	729 418 800	371 701 800
Commercial	115 055 500	143 740 100
State	143 476 400	182 612 900
Municipal	8 251 370	4 437 200
Agriculture	1 293 547 500	1 152 896 200
Other	285 015 900	406 330 400
	2 574 765 470	**2 261 718 600**

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2012. The first supplementary was implemented on 1 May 2013. Interim valuations are processed on an quaterly basis to take into account changes in individual property values due to alterations. The valuation were performed by an independent valuer, Sechele property developers and Valuers are not connected to the municipality.

The new general valuation will be implemented on 01 July 2016.

23. Service charges

Sale of electricity	17 076 703	15 930 860
Sale of water	2 892 026	788 684
Sewerage and sanitation charges	5 257 546	4 680 937
Refuse removal	4 216 292	4 149 678
	29 442 567	**25 550 159**

Figures in Rand	2013	2012

24. Government grants and subsidies

Operating grants		
Department of Water and Forestry Affairs	7 790 527	8 425 773
Equitable share	159 110 000	140 273 121
	159 110 000	140 273 121
Capital grants		
Accelerated community infrastructure programme	2 808 477	-
Development Bank of South Africa	173 157	318 639
Department of Energy	15 631 165	-
Department of Human Settlements	-	-
Department of Water and Forestry Affairs	-	4 737 814
Expanded Public Works program	1 351 981	877 000
Municipal Infrastructure Grant	77 236 001	91 603 096
Financial Management Grant	1 958 434	2 764 292
Municipal Systems Improvement Grant	860 000	1 013 881
Department of Human Settlements	1 423 731	-
	101 442 946	101 314 722
	268 343 473	**250 013 616**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Financial management grant

Balance unspent at beginning of year	708 434	2 222 726
Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 958 434)	(2 764 292)
	-	**708 434**

The grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

Municipal infrastructure grant

Balance unspent at beginning of year	-	18 154 901
Current-year receipts	77 236 000	74 836 968
Conditions met - transferred to revenue	(77 236 000)	(92 991 869)
	-	**-**

The grant is intended to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

Municipal systems improvement grant

Balance unspent at beginning of year	-	223 881
Current-year receipts	860 000	790 000
Conditions met - transferred to revenue	(860 000)	(1 013 881)
	-	**-**

The grant intended to assist the Municipality in building in house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal system Act and related legislation, policies and local government turnaround strategy.

Department of local government and traditional affairs

Figures in Rand	2013	2012

24. Government grants and subsidies (continued)

Balance unspent at beginning of year	228 832	228 832

The grant is intended for the construction of the ring in Silobela which is funded by the department of local government and housing.

Department of Water and Forestry Affairs

Balance unspent at beginning of year	-	3 383 041
Current-year receipts	8 145 000	1 354 773
Conditions met - transferred to revenue	(7 790 527)	(4 737 814)
	354 473	**-**

The grant is intended to fund bulk, connector and internal infrastructure of water services at a basic level of service.

Development bank of South Africa

Balance unspent at beginning of year	173 157	-
Current-year receipts	-	491 796
Conditions met - transferred to revenue	(173 157)	(318 639)
	-	**173 157**

The grant is intended to co-fund the land use management system.

Accelerated community infrastructure programme

Balance unspent at beginning of year	2 808 477	-
Current-year receipts	-	2 808 477
Conditions met - transferred to revenue	(2 808 477)	-
	-	**2 808 477**

The grant is intended to fund the development of the package plant and AC pipes for Silobela.

Department of arts and culture

Balance unspent at beginning of year	199 666	199 666

The grant is intended to improve the social economic situation.

Expanded public works program

Current-year receipts	1 386 000	877 000
Conditions met - transferred to revenue	(1 351 981)	(877 000)
	34 019	**-**

The grant was used for the creation of employment.

Department of Energy

Current-year receipts	16 200 000	-
Conditions met - transferred to revenue	(15 631 165)	-
	568 835	**-**

The grant is intended to fund energy efficient lighting technologies in municipal building, street and traffic lighting infrastructure.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

24. Government grants and subsidies (continued)

Department of Human Settlements

Current-year receipts	1 423 731	-
Conditions met - transferred to revenue	(1 423 731)	-
	-	-

The grant is intended to fund the project of upgrading and refurbishing of existing water treatment plant at Eesterhoek.

25. General expenses

Audit committee fees	604 201	355 373
Advertising	542 922	673 676
External audit fees	3 411 659	2 416 538
Bank charges	435 562	487 700
Cleaning	377	-
Commission paid	3 886 956	-
Legal expenses	1 869 542	4 389 110
Consumables	194 878	352 296
Stock adjustment: Water	(28 664)	210 335
Entertainment	1 450 490	615 652
Insurance	964 497	2 337 214
Lease rentals on operating lease	1 161 582	1 027 645
Magazines, books and periodicals	682 807	200 369
Motor vehicle expenses	8 888 882	6 818 843
Fuel and oil	159 831	48 588
Postage and courier	1 420 172	1 448 702
Printing and stationery	1 036 139	797 219
Capacity building	1 836 487	270 057
License fees	846 301	879 686
Staff welfare	66 570	-
Subscriptions and publications	543 295	534 203
Telephone and fax	2 428 482	1 450 047
Transport and freight	5 113 166	4 063 418
Training	1 100 789	645 025
Title deed search fees	1 958 434	2 789 651
VIP toilets not capitalised	9 518 434	24 290 068
Uniforms and overalls	751 351	510 650
Committee cost	2 696 222	1 412 458
MSIG salaries	813 147	1 195 027
Spatial Planning	1 595 295	868 166
Local economic development	1 012 840	1 071 400
Interview cost	139 142	105 777
Chemicals	5 003 633	3 185 250
Convention bureau	1 338 774	1 041 882
Hostel charges	1 140 964	996 848
Other expenses	4 893 524	4 329 438
	69 478 683	**71 818 311**

Figures in Rand	2013	2012

26. Employee related costs

Acting allowances	1 862 672	1 483 164
Actuarial loss/(gain)	760 262	383 000
Bargaining council	28 489	15 150
Basic	58 075 005	49 216 270
Bonus	4 721 196	3 759 158
Interest	803 745	1 094 465
Housing benefits and allowances	670 912	716 581
Leave pay accrual	1 856 084	3 697 508
Medical aid	4 013 897	3 424 826
Overtime payments	4 864 121	4 127 000
Pension Fund	10 647 842	9 098 813
Provident fund	107 304	51 735
SDL	780 799	634 580
Service Cost	423 841	48 944
Standby allowances	1 279 934	854 833
Telephone allowances	51 121	5 200
Travel allowances	4 496 148	3 850 189
UIF	543 678	382 285
	95 987 050	**82 843 701**

Remuneration of Municipal Manager: Mpila VN

Annual Remuneration	736 380	647 904
Allowances	89 054	66 791
Contributions to UIF, Medical and Pension Funds	212 877	159 949
	1 038 311	**874 644**

Remuneration of Chief Finance Officer: Mphumuzi Nhlabathi

Annual Remuneration	430 555	-
Allowances	194 278	-
Contributions to UIF, Medical and Pension Funds	91 742	-
	716 575	**-**

Remuneration for 2013 represent amounts received for filling the position of deputy Chief Finance Officer from 30 January 2013 to 31 May 2013 before being appointed as Chief Finance Officer in June 2013. From 1 November 2013 – 29 January the municipality did not have a CFO. A leave pay out of R162 935,46 was made during the year

Remuneration of Chief Finance Officer: Rampedi MN

Annual Remuneration	-	203 817
Allowances	-	39 935
Contributions to UIF, Medical and Pension Funds	-	2 857
	-	**246 609**

From July 2011 – February 2012 the Manager of expenditure acted as CFO. From March 2012 – June 2012: Mrs Rampedi MN filled the position as CFO.

Remuneration of Director: Technical Services: GM Matlala

Annual Remuneration	357 178	488 546
Allowances	80 000	120 000
Contributions to UIF, Medical and Pension Funds	86 930	120 605
	524 108	**729 151**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

26. Employee related costs (continued)

Remuneration as refected for 2013 is for a period of 5 months due to being discharged in November 2012. Director of Electrical acted for 7 months from December 2012 to June 2013 and received total remuneration of R206 223.

Remuneration of Director: Corporate services: Mndebele SF

Annual Remuneration	576 601	536 719
Allowances	91 605	91 605
Contributions to UIF, Medical and Pension Funds	133 808	165 847
	802 014	**794 171**

Remuneration of Director: Public Safety: Makgopa KB

Annual Remuneration	570 327	177 950
Allowances	52 728	17 576
Contributions to UIF, Medical and Pension Funds	165 708	51 275
	788 763	**246 801**

Remuneration of Director: Community Services: Mkhwanazi ZF

Annual Remuneration	614 940	284 632
Allowances	117 600	29 300
Contributions to UIF, Medical and Pension Funds	56 606	40 353
	789 146	**354 285**

Remuneration of Director: Planning and Economic Development: Lukhele TA

Annual Remuneration	657 979	286 650
Allowances	60 000	37 264
Contributions to UIF, Medical and Pension Funds	71 226	48 704
	789 205	**372 618**

27. Remuneration of councillors

Executive mayor	671 112	636 961
Speaker	540 966	512 551
Chief whip	508 319	501 964
Mayoral committee members	1 525 269	1 465 782
Councillors	9 357 243	8 284 351
	12 602 909	**11 401 609**

27. Remuneration of councillors (continued)

In-kind benefits

The Executive mayor is provided with a vehicle, driver, secretary and personal assistant at the cost of the Council.

The Chief whip is provided with a personal assistant

The Speaker is provided with secretarial support and a personal assistant

All the full time Mayoral committee members are provided with one secretary.

Members of municipal council should be remunerated within the upper limits as determined by the Department of Cooperative Governance and Traditional Affairs. Any deviations are disclosed as irregular expenditure.

Remuneration of Employees:
The remuneration of the employees and section 57 managers are within the upper limits as determined by the frameword envisaged section 219 of the Constitution.

Remuneration of Councillors:
The remuneration of the political office bearers and councillors are within the upper limits as determined by the frameword envisaged section 219 of the Constitution.

Executive Mayor	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Shiba BP	405 293	161 387	19 872	78 861	5 699	671 112
Total	405 293	161 387	19 872	78 861	5 699	671 112

Speaker	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Nkosi SM	320 758	129 110	19 872	66 820	4 406	540 966
Total	320 758	129 110	19 872	66 820	4 406	540 966

Chief Whip	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Nkosi DP	309 866	121 040	19 872	53 255	4 286	508 319
Total	309 866	121 040	19 872	53 255	4 286	508 319

Mayoral Committee	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Mngomezulu MW	295 782	121 040	19 872	67 339	4 405	508 438
Mnisi NM	304 613	121 040	19 872	58 508	4 383	508 416
Makhubela NV	305 858	121 040	19 872	57 262	4 383	508 415
	906 253	**363 120**	**59 616**	**183 109**	**13 171**	**1 525 269**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

27. Remuneration of councillors (continued)

Councillors	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Cindi NR	135 776	48 416	12 396	9 473	2 072	208 133
Dludlu ZM	126 797	48 416	12 396	18 451	1 936	207 996
Lubede EJ	126 797	48 416	12 396	18 451	1 934	207 994
Maduna ME	113 690	48 416	12 396	31 557	1 966	208 025
Makene J	161 360	56 418	12 396	7 893	2 401	240 468
Makhubela NV	126 797	48 416	12 396	18 451	1 938	207 998
Malaza STQ	126 797	48 416	12 396	18 451	1 938	207 998
Masuku BM	126 797	48 416	12 396	18 451	1 938	207 998
Mathunjwa KC	94 175	36 312	9 297	13 715	1 506	155 005
Mbhele JS	126 797	48 416	12 396	18 451	1 938	207 998
McGinn HJ	126 797	48 416	12 396	18 451	1 938	207 998
Mdhluli NI	115 663	48 416	12 396	29 585	1 963	208 023
Mdluli SL	115 226	44 382	11 363	16 872	1 787	189 630
Mhlanga PP	126 797	48 416	12 396	18 451	1 938	207 998
Mkhabela EB	126 797	48 416	12 396	18 451	1 938	207 998
Mnisi N	126 797	48 416	12 396	18 451	1 938	207 998
Motha JT	126 797	48 416	12 396	18 451	1 938	207 998
Motha TW	126 797	48 416	12 396	18 451	1 938	207 998
Mthombeni SF	137 354	48 416	12 396	7 893	2 098	208 157
Ngubeni A	137 354	48 416	12 396	7 893	2 098	208 157
Nkabinde NJ	110 616	48 416	12 396	34 632	1 975	208 035
Nkosi AD	150 355	56 418	12 396	18 899	2 235	240 303
Nkosi FE	126 797	48 416	12 396	18 451	1 938	207 998
Nkosi GJ	126 797	48 416	12 396	18 451	1 938	207 998
Nkosi JS	126 797	48 416	12 396	18 451	1 938	207 998
Nkosi MH	126 797	48 416	12 396	18 451	1 938	207 998
Nkosi MJ	126 797	48 416	12 396	18 451	1 938	207 998
Nkosi NM	126 797	48 416	12 396	18 451	1 938	207 998
Nkosi SJ	126 797	48 416	12 396	18 451	1 938	207 998
Nkosi SZ	150 355	56 418	12 396	18 899	2 235	240 303
Nkosi VL	132 634	56 418	12 396	36 619	2 276	240 343
Ntuli FJ	138 933	48 416	12 396	6 315	2 120	208 180
Phakathi FDM	137 354	48 416	12 396	7 893	2 094	208 153
Shabangu VS	281 205	113 850	19 872	60 336	4 144	479 407
Sikhakhane NB	126 797	48 416	12 396	18 451	1 936	207 996
Simelani JD	137 354	48 416	12 396	7 893	2 094	208 153
Soko JP	150 355	56 418	12 396	18 899	2 233	240 301
Steenkamp ML	126 797	48 416	12 396	18 451	1 936	207 996
Thomo NG	150 355	56 418	12 396	18 899	2 235	240 303
Vilakazi J	126 797	48 416	12 396	18 451	1 938	207 998
Vilakazi RG	138 933	48 416	12 396	6 315	2 120	208 180
Vilakazi VV	113 690	48 416	12 396	31 557	1 969	208 028
Zwane TE	126 797	48 416	12 396	19 843	1 937	209 389
Zulu TW	10 525	4 034	1 033	1 578	287	17 457
	5 729 593	**2 183 230**	**537 405**	**819 380**	**88 471**	**9 358 079**

28. Debt impairment

	2013	2012
Allowance for impairment	34 216 243	29 263 288
Bad debts written off	-	763 198
	34 216 243	**30 026 486**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
29. Repairs and maintenance		
Infrustructure assets	12 103 544	23 168 995
Computers	619 178	315 865
Office , furniture, equipment and tools	2 869 858	337 959
Other	8 506 918	-
	24 099 498	**23 822 819**
30. Interest received		
Interest - consumers	16 058 562	16 042 871
31. Investment revenue		
Dividend revenue		
Unlisted investments designated at fair value	6 884	-
Interest revenue		
Unlisted Investments designated at fair value	1 758 010	2 641 570
32. Fair value adjustments		
Non-current assets held for sale	171 000	1 141 400
Other financial assets		
• Other financial assets designated as at fair value	25 080	108 452
	196 080	**1 249 852**
33. Finance costs		
Provisions	282 595	-
Trade and other payables	220 317	176 623
Finance leases	375 520	79 678
	878 432	**256 301**
34. Auditors' remuneration		
Fees	3 411 659	2 416 538
35. Rental of facilities and equipment		
Facilities	427 476	439 865
36. Licenses and permits		
Business applications	17 692	3 241
Trafic	804 986	945 825
Licences	1 040 352	4 198
	1 863 030	**953 264**
37. Fines		
Court fines	194 214	856 582

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

38. Donation received

Donations: ACIP	10 732 760	9 712 587

39. Other income

Building plan fees	162 167	81 610
Commision received	40 041	696 614
Burial fees	77 097	76 709
Clearance certificate	11 062	10 426
Connection services	212 713	283 545
Fire brigade fees	31 812	7 526
Sale of stands	123 093	114 170
Sundry income	259 881	51 667
Tampering of meters	115 632	41 542
Tender deposit	223 580	238 585
	1 257 078	**1 602 394**

40. Contracted services

Information technology services	8 842 846	13 882 860
Fleet services	10 410 435	7 421 026
Water tank services	6 190 329	5 420 448
Standby contractors	1 204 592	1 167 221
Valuation costs	615 599	2 382 272
	27 263 801	**30 273 827**

41. Bulk purchases

Electricity	31 354 537	34 225 599
Water	8 218	13 563
	31 362 755	**34 239 162**

Electricity distribution losses are based on units purchased per invoices received from Eskom and units sold per prepaid reports and debtors system. It was determind to be R13 502 694 (20 966 596 units) for the financial year ending 30 June 2013.

Water distribution losses are estimated per scheme for the financial year ended 2013. Carolina and Badplaas are approximately 5-10% due to leakages as the plants are closely monitored. For the rest of the plants listed below the losses ranges between 20-30%

- Eerstehoek
- Ekulindeni
- Empuluzi
- Methula
- Lusushwana

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

42. Cash generated from operations

Deficit	(29 606 739)	(51 211 352)
Adjustments for:		
Depreciation and amortisation	94 508 594	93 489 123
Fair value adjustment	(196 080)	(1 249 852)
Debt impairment	34 216 243	30 026 486
Movements in operating lease asset and accruals	9 783	(1 878)
Movements in provisions	1 028 879	4 498 650
Changes in working capital:		
Inventories	(1 584 427)	211 452
Receivables	(50 143 982)	(38 852 490)
Investments	59 300	-
Payables from exchange transactions	43 189 843	30 591 540
VAT	(3 061 302)	18 575 413
Leases	9 783	(1 878)
Unspent conditional grants and receipts	(2 732 742)	(20 294 481)
	85 697 153	**65 780 733**

43. Commitments

Already contracted for but not provided for		
• Capital	127 992 300	81 798 462

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

44. Contingent liabilities

Litigations in the process against the Municipality relating to civil claims include the following:	Potential liability
Grand Valley Estates (Pty) Ltd	26 680 000
JM Mathebula	50 000
Morekuri Trading JV Nadumi Trading and Projects	231 307
LC van Aswegen	42 100
L Nkosi	55 000
Lebea and Maduna Consulting Engineering	1 500 000
Bigen Africa	4 300 000
De Kaap	25 000
Sifiso	150 000
SALGA: Wage curve collective agreement	-
	33 033 407

44. (continued)

Litigation in the process against the Municipality relating to civil claims including the following:

Grand Valley Estates (Pty) Ltd:
As a Municipality, being the organ of state, non-assistance was provided to the plaintiffs in terms of a business opportunity in the form of operating a game reserve and non-assistance in terms of nature conservation protection. There are 25 defendants of which Albert Luthuli is the 8th defendant. The defendants are jointly and severally liable. The probability of the claim being successful is less than 50%. The total potential liability is estimated at R26 680 000.00 for the municipality only.

JM Mathebula:
The plaintiff's electricity was cut-off due to non-payment and resulted in the plaintiff tampering with the connection to get access to electricity for health reasons. The probability of the claim being successful is less than 50%. The potential liability estimated at R50 000.

Mr Magagula:
As a result of electricity failure, Mr Magagula incurred damages to his property. The probability of the claim being successful is more than 50%. The potential liability is estimated at R13 648. No attorneys were appointed due to the insignificance of the amount.

Morekuri Trading JV Nadumi Trading and Projects:
The municipality terminated the contract due to poor performance. The plaintiff disagrees. The probability of the claim being successful is less than 50%. The potential liability is estimated at R231 307.On the 9th of July 2013 judgment was granted against the defendant to pay R231 307 plus interest of 15.5% from the date of the summons to the date of the final payment

LC Van Aswegen:
The plaintiff's electricity was cut-off due to non-payment of the bill. The plaintiff is claiming loss of revenue. The probability of the claim being successful is less than 50%. The potential liability is estimated at R42 100.

Mr L Nkosi:
The plaintiff's motor vehicle was damaged due to potholes. The plaintiff fixed the pothole himself due to a potential loss in revenue, had the pothole stayed unfixed. The probability of the claim being successful is 50%. The potential liability is estimated at R55 000.

Lebea and Maduna Consulting Engineering:
A contractor was appointed to perform consulting work on the water project. Proposals made by the consultant to the Department of Water Affairs were not passed and hence the project was terminated. The probability of the claim being successful is less than 50%. The potential liability is estimated at R1 115 433.

Bigen Africa:
Debt Collection

In this matter the service provider was appointed to assist with the revenue collection. It is alleged that at the briefing session they were told that a successful bidder will be the only service provider. Hence when they were told that they will be working with other two service providers they felt that the Municipality is moving away from the initial scope of contract.

An assessment was made that the number of our debtors is very high and one service provider cannot manage to make an impact in a short space of time. Hence it was decided that there should be three service providers in this kind of work.
We have consulted with our attorneys and decided to furnish the Applicant with the required information so in line with the right to access to information.
On the 15th of May 2013 judgement was obtained in their favour, however it was only academic since we had already prepared and submitted the information that was requested.
The potential liability is estimated at R 4 300 000.00
The plaintiff's electricity was cut-off due to non-payment and resulted in the plaintiff tampering with the connection to get access to electricity for health reasons. The probability of the claim being successful is less than 50%. The potential liability estimated at R50 000.

De Kaap:
A summon was received from De Kaap Electrical CC claiming an amount of R 25 000 being the amount outstanding to them after their claim was partially paid.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

44. (continued)
Consultation with technical services is still being conducted order to determine if it is worth it to defend or not.

The potential liability is estimated at R 25000

Sifiso
A vehicle driven by an employee of the Municipality collided with the vehicle of a private person. The private person has served the Municipality with a notice in terms of section 3 of the Institution of Legal Proceedings Against the State Act 40 of 2002.

The amount claimed by the private person is R 150 000.

Therefore potential liability is estimated at R 150 000.

SALGA: Wage curve collective agreement
The Municipality has not done the job evaluation in response to the wage curve collective agreement that was signed by SALGA on behalf of the municipality due to an early analysis done by the technocrats from the municipality indicating that the municipality are paying more than what was proposed by the Mediator Proposal. Currently there is no present obligation in the foreseeable future with regard to the implementation of the wage curve. No job evaluations have been finalised as to date to facilitate the calculations of a possible obligation.

45. Related parties

No transactions were entered into with related parties to the municipality and close family members during the year.

46. Prior period errors

The correction of the errors resulted in adjustments as follows:

1 Professional fees paid
Correction of VAT journals raised in the prior year for amounts not claimable. The correction was incorrectly posted to the suspense account for transactions already cleared to expenditure in the prior years.
The effect of this adjustment on the prior year is as follows:

Adjustment against opening accumulated surplus 1 July 2011	(334 919)
Adjustments affecting the statement of financial position	
Decrease in accounts payable	869 449
Adjustments affecting the statement of financial performance	
Decrease of contracted fees	(334 919)

2 Insurance refund
Insurance refund received not accounted for as revenue in the prior financial year.
The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position	
Decrease in accounts payable	220 000
Adjustments affecting the statement of financial performance	
Increase in sundry income	(220 000)

3 Long service award
The movement for long service award was incorrectly accounted for in the prior financial year.
The effect of this adjustment on the prior year is as follows:

Adjustment against opening accumulated surplus 1 July 2011	1 885 184
Adjustments affecting the statement of financial position	
Increase in trade and other payables	(2 755 184)

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

46. Prior period errors (continued)

Adjustments affecting the statement of financial performance		
Increase in employee related cost		870 000

4 Grant income
Revenue relating to the grant received from Department of Water Affairs not recognised during the prior financial year.
The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position		
Decrease in unspent conditional grants and subsidies		1 354 773
Adjustments affecting the statement of financial performance		
Increase in government grant and subsidies revenue		(1 354 773)

5 Cash and cash equivalents
Reversal of journal duplicated in the prior financial year.
The effect of this adjustment on the prior year is as follows:

Adjustment against opening accumulated surplus 1 July 2011		6 872 320
Adjustments affecting the statement of financial position		
Decrease in cash and cash equivalents		(6 872 320)

6 Retentions
Retentions incorrectly accounted for in the 2012 financial year.
The effect of this adjustment on the prior year is as follows:

Adjustment against opening accumulated surplus 1 July 2011		(4 219 696)
Adjustments affecting the statement of financial position		
Decrease in trade and other payables		5 334 075
Adjustments affecting the statement of financial performance		
Decrease in repairs and maintenance		(1 114 379)

7 Depreciation
Depreciation was not written off in the prior financial year on landfil sites.
The effect of this adjustment on the prior year is as follows:

Adjustment against opening accumulated surplus 1 July 2011		105 474
Adjustments affecting the statement of financial position		
Increase in accumulated depreciation		(366 133)
Adjustments affecting the statement of financial performance		
Increase in depreciation		260 659

8 Closure cost liability
Landfill sites operating without a license and obligated by law to be closed and restored to its original state within the following year was incorrectly provided for as provision in the prior year. Incorrect information used in determining the carrying value of the landfill sites in the prior financial year.
The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position		
Increase in trade payables		(4 473 089)

Figures in Rand	2013	2012

46. Prior period errors (continued)

Decrease in property, plant and equipment		(3 043 164)
Adjustments affecting the statement of financial performance		
Increase in rehabilitation cost		4 473 089
Decrease in provision for rehabilitation		3 043 164

9 Movable assets take on
Re-take on of the movable asset register.
The effect of this adjustment on the prior year is as follows:

Adjustment against opening Accumulated Surplus 1 July 2011		2 447 561
Adjustments affecting the statement of financial position		
Increase in property, plant and equipment		514 785
Adjustments affecting the statement of financial performance		
Decrease in depreciation		(2 962 346)

10 Debtors with credit balances
Receivables paid in advance was incorrectly disclosed as part of receivables in the prior year.
The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position		
Increase in receivables from exchange transactions		970 745
Increase in receivables from non-exchange transactions		1 617 966
Increase in trade payables		(2 588 711)

47. Risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they fall due. The municipality's approach to managing is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unauthorised expenditure. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. The municipality has not defaulted on ecternal loans, payables and lease commitment payments being either interest or capital and no re-negotiation of terms were made on any of these instruments.

48. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

49. Events after the reporting date

The accounting officer is not aware of any matter or event arising since the end of the reporting period and the date of this report, which will significantly affect the financial position and results of the municipality's operations.

50. Unauthorised expenditure

Overspending of the budget	9 058 778	-

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

51. Fruitless and wasteful expenditure

	2013	2012
Opening balance	674 155	-
Eskom - interest	170 173	39 434
SARS - interest and penalties	-	19 923
Trade and other payables - interest	1 554	614 798
Auditor General - interest	48 590	-
	894 472	**674 155**

The fruitless and wasteful expenditure relates to interest on Eskom, Telkom and Auditor General overdue accounts.

52. Irregular expenditure

	2013	2012
Opening balance	63 789 505	7 911 870
Add: Irregular Expenditure - current year	16 911 580	55 874 635
	80 701 085	**63 786 505**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Advert not placed for at least ten days	None	4 884 223
Consultants procurement process not followed	None	6 385 418
Procured without completion of the MBD4 declaration	None	5 583 345
Procured without inviting three quotations	None	58 594
		16 911 580

Details of irregular expenditure condoned

	Condoned by (condoning authority)	
Advert not placed for at least ten days	Council	16 911 580

53. Additional disclosure in terms of Municipal Finance Management Act

PAYE and UIF

	2013	2012
Opening balance	778 456	824 006
Current year subscription / fee	11 147 066	10 338 115
Amount paid - current year	(10 228 835)	(9 559 659)
Amount paid - previous years	(778 456)	(824 006)
	918 231	**778 456**

The balance represents PAYE and UIF deducted from the June 2013 payroll. These amounts were paid throughout the year.

Audit fees

	2013	2012
Opening balance	184 336	13 696
Current year subscription / fee	3 411 659	2 755 071
Amount paid - current year	(788 720)	(2 570 735)
Amount paid - previous years	-	(13 696)
	2 807 275	**184 336**

Figures in Rand	2013	2012

53. Additional disclosure in terms of Municipal Finance Management Act (continued)

Contributions to SALGA

	2013	2012
Opening balance	155 662	378 365
Current year subscription / fee	160 755	187 162
Amount paid - current year	(44 500)	(31 500)
Amount paid - previous years	(155 662)	(378 365)
	116 255	**155 662**

Pension and medical aid deductions

	2013	2012
Opening balance	1 768 593	1 107 988
Current year subscription / fee	21 524 658	20 116 503
Amount paid - current year	(19 632 264)	(18 347 910)
Amount paid - previous years	(1 768 593)	(1 107 988)
	1 892 394	**1 768 593**

VAT

	2013	2012
VAT receivable	1 567 137	-
VAT payable	-	1 494 165
	1 567 137	**1 494 165**

VAT output payables and VAT input receivables are shown in note 920.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June:

30 June 2013	**Outstanding less than 90 days**	**Outstanding more than 90 days**	**Total**
Vilakazi J	-	2 916	2 916

30 June 2012	**Outstanding less than 90 days**	**Outstanding more than 90 days**	**Total**
Cindi NR	-	3 854	3 854
Mhlangu PP	-	2 904	2 904
Ngubeni A	-	2 334	2 334
Nkosi MH	-	2 588	2 588
Nkosi MJ	-	4 298	4 298
Nkosi NM	-	3 854	3 854
Ntuli FJ	-	654	654
Vilakazi J	-	2 836	2 836
Vilakazi J	-	2 916	2 916
	-	**26 238**	**26 238**

Figures in Rand	2013	2012

53. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Deviations		
SKC Masakhizwe Engineers: Safety Evaluation of Brigde	29 000	-
Wolters Kluwer: Team mate for internal Audit	164 215	-
Teletronics Multichoice: Installation of DSTV at Fire Station	3 400	-
TSJ Trading: Supply and Installation of Tripping forward	97 720	-
Mandlakazi Electrical: Cape fault finding	22 884	-
Turner Morris: Concrete 52 W Puch type	26 190	-
TSJ: Battery Trapping Unit	29 000	-
High Pressure System: Driving Training Course	17 556	-
Mandlakazi Electrical: Cable fault finding at Eerstehoek WTW	22 525	-
Mandlakazi Electrical: Cable fault finding at Silobela	22 884	-
Mindnizik Media: Learners Licence Material	6 192	-
Mailmech Electronics: LJ 40 Franking Machine	30 951	-
Trio Hydraulics: Repairs for FNN 257 MP	3 650	-
TSJ Trading Projects: Model self containers BTU	405 000	-
C Struges: Installation of transformer at Nkanini	5 130	-
C Struges: Installation of transformer at Crossroad	5 700	-
Mandlakazi: Cable fault finding and repair at Silobela	46 578	-
Mugovhe: Electrification of RDP houses (NCOP)	28 000	-
Goscor Access Equipment: Refurbishment of Cherry Picker	86 676	-
C Sturges: Installation of transformer	5 700	-
Moru Bathong Investment: Competency Assessment	27 596	-
Basadzi Personnel: Advert for Insurance & Database	16 735	-
	1 103 282	**-**

54. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

Service charges
The water challenges in Carolina was resolved which resulted in an increase in sales.
The creation of new accounts in Silobela Ext 4 resulted in a futher increase

Rental of facilities
The municipality renovated the Silobela and Carolina Town Hall.

Interest received - consumers
The municpality charge interest on outstanding debtors at prime plus one.
The municpality appointed two debt collectors to assist with debt collection.

Licenses and permits
The monthly income for licence and permits increased due to the implementation of new roller brake machine.

Property rates
The implementation of new valuation roll resulted in an increase in property rates.

Fines
Income only recognised when summons issued by Court of law and the actual payment is received. The munisipality do not have control over fine revenue.

Personnel
The increase in personnel cost Is a result of service costs, interest costs and gain and losses on actual on long service awards. There was an increase in overtime, standby allowances and shift allowances. The water and electricity and sanitation personnel normally worked on weekends which is regarded as overtime. The traffic officers and the fire fighters are working on weekends. Other sphere of government visited the municipality which also contribute to the payment of overtime.

Depreciation and asset impairment
When the budget was prepared a provision of R2 000 000 was made for the current year procurement. A provision was not made for the prior year assets as this may result to the budget to be unfunded. The municipality will have huge deficits that should be funded from rates and taxes and other tariffs. In the current year after the approval of the budget the municipality was advised that it was correct to have a budget with deficit.

Allowance for doubtful debt
A provision was made in the 2012/13 financial year, at year end a propability analysis was done in terms of each debtor which resulted in an increase in debt.

Bulk purchases
All the electricity costs in the prior years were budgeted for under the electricity department. During the adjustment budget process it was agreed that the costs should be budgeted for as electricity to be consistent with the prior year.
The municipality intended to reduce the technical losses and commercial losses.
The municpality appointed two meter inspectors to reduce commercial losses.

Contracted services
The municipality make use of water tankers for the provision of water supply in deep rural areas which increase the contracted services. The municipal infrastructure assets are not in a good condition and require repairs on adhoc basis. Other service providers (Debt Collectors) were appointed on risk bases for which no budget provision was made.

General expenditure
The VIP toilet project was budgeted for under capital expenditure, however due to these items not meeting the definition of an asset they were expensed and resulted in the variance.

Inventory
Additional stock items were identified at year end for which no provision was made for in the budget.

Investments
The municipality anticipated to invest surplus funds to investment.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

54. Actual operating expenditure versus budgeted operating expenditure (continued)
Cash flow challenges were experience during the year which resulted in investment withdrawals.

Consumer Receivables
Data cleansing was conducted to ensure the accuracy of billings and more effective debt collection.
More debtors were identified to be irrecoverable at year end which increased the allowance for doubtful debt.

VAT
The VAT debtor was not budgeted for.

Cash and cash equivalents
The municipality anticipated to generate more revenue from outstanding debtors based on the appointment of two debt collectors.

Property, plant and equipment
Projects funded out of the munisipalities revenue were not implemented as intended.
Cost curtailment was implemented.

Payables from exchange transactions
The following resulted in an increase in payables:
Outstanding EFT's at year end.
Retention amounts that is budgeted for under capital budget.
Leave, Closure cost, income received in advance, thirteeth cheque and the social responsibility are all non cash flow items and not included.

Provisions
The increase in the provision was as a result of the long service awards.